

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 SP-02 USIA-15 AID-05
EB-08 NSC-05 TRSE-00 SS-15 STR-06 OMB-01 CEA-01
L-03 H-02 PA-02 PRS-01 CIAE-00 COME-00 FRB-01
INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 DOE-11
SOE-02 /141 W

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R 181836Z JAN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4428
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
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USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
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AMCONSUL NICE
AMCONSUL STRASBOURG

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USMTN: PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

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TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 213

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1. SUMMARY

STATISTICS FOR THE END OF 1977 PROVIDE SOME BRIGHT SPOTS
TO WHAT WAS OTHERWISE A FAIRLY BLEAK YEAR FOR THE
FRENCH ECONOMY. UNEMPLOYMENT SHOWED A FURTHER DECLINE
IN DECEMBER (SEE PARIS U1434), THE FOREIGN TRADE
SECTOR REGISTERED A SURPLUS FOR THE FINAL MONTH OF

THE YEAR WITH THE TRADE PERFORMANCE FOR THE YEAR IN LINE WITH GOF TARGETS. PM BARRE OPENED UP THE NEW YEAR BY OUTLINING A LONG-RANGE PROGRAM WHICH INCLUDED, AMONG OTHER THINGS, A PROMISE TO FREEZE FOR 18 MONTHS BUSINESS SOCIAL CHARGES (SEE PARIS 00834). END SUMMARY

2. INDUSTRIAL PRODUCTION INCREASED IN NOVEMBER

THE MONTHLY INDEX OF INDUSTRIAL PRODUCTION INCREASED FROM 122 IN OCTOBER TO 127 IN NOVEMBER. ACCORDING TO INSEE, TO DETERMINE THE TREND IN INDUSTRIAL PRODUCTION THE INDICES FOR THESE TWO MONTHS SHOULD BE REGARDED TOGETHER RATHER THAN SEPARATELY BECAUSE A CERTAIN NUMBER OF DAYS IN PLANT CLOSINGS IN OCTOBER WERE PICKED UP IN NOVEMBER. THE AVERAGE OF THE MONTHLY INDEX FOR THE THREE MONTHS ENDING IN NOVEMBER WAS 125, UP FROM 124 FOR THE PERIOD ENDING IN OCTOBER.

INDUSTRIAL PRODUCTION INDEX
(THREE MONTH MOVING AVERAGE, SEASONALLY ADJUSTED
1970=100)

	NOV.76	SEPT.	OCT.	NOV.
TOTAL (EXCLUDING BUILDING AND PUBLIC WORKS)	127	125	124	125

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ENERGY	120	117	115	117
INTERMEDIATE GOODS	119	116	115	114
CONSUMER GOODS	140	137	139	142
CAPITAL GOODS	146	153	148	145

HOWEVER, ACCORDING TO THE BANK OF FRANCE, INDUSTRIAL PRODUCTION SHOWED A SLIGHT DECLINE IN DECEMBER, PARTICULARLY IN THE INTERMEDIATE GOODS SECTOR. THIS DECLINE RESULTED PRIMARILY FROM THE CLOSING OF A SIGNIFICANT NUMBER OF FACTORIES DURING THE HOLIDAY PERIOD AND FROM THE EFFECT OF THE ELECTRICITY STRIKE. THE BOF THINKS THAT INDUSTRIAL ACTIVITY SHOULD RETURN TO ITS LEVEL OF RECENT MONTHS DURING THE FIRST MONTHS OF 1975.

THE BOF REPORTS THAT FOREIGN ORDERS REMAINED FIRM BUT THAT DOMESTIC DEMAND WAS FAIRLY FLAT. BACK ORDERS WERE LOW, PARTICULARLY IN FIRMS ORIENTED PRIMARILY TOWARDS THE DOMESTIC MARKET. RETAIL TRADE PICKED UP AND WAS 10 PERCENT HIGHER THAN IN NOVEMBER-DECEMBER 1976 AND 1.5 PERCENT HIGHER THAN IN SEPTEMBER-OCTOBER

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1977.

3. PATRONAT EXPECTS SLIGHT RECOVERY IN PRODUCTION
IN COMING MONTHS

ACCORDING TO THE PATRONAT, CERTAIN FAVORABLE ELEMENTS
CURRENTLY EXIST FOR A SLIGHT RECOVERY IN PRODUCTION,
PARTICULARLY IN THE CONSUMER GOODS SECTOR. THE
PATRONAT BASES ITS ANALYSIS ON THE FOLLOWING FACTORS:

1) THE PROCESS OF INVENTORY RUN-DOWN IS CONTINUING

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ALTHOUGH THE LEVEL OF INVENTORIES IS STILL CONSIDERED TO BE TOO HIGH. WHOLESALERS ARE PLANNING ON INCREASING THEIR ORDERS, EXCEPT IN THE CAPITAL GOODS SECTOR WHERE INVENTORIES ARE STILL TOO HIGH.

2) HOUSEHOLD SPENDING WHICH HAS INCREASED PROGRESSIVELY SINCE NOVEMBER OUGHT TO SHOW A SLIGHT GROWTH IN THE COMING MONTHS DUE TO AN INCREASE IN REAL PURCHASING POWER (INCREASE IN SMIC ON DECEMBER 1, BONUS TO MANUAL WORKERS, INCREASE IN OLD-AGE AND FAMILY PAYMENTS ON JANUARY 1, SLOW-DOWN IN RATE OF INFLATION).

4. RECORD FOREIGN TRADE SURPLUS IN DECEMBER

AN EXCEPTIONALLY LARGE SURPLUS OF F1.6 BILLION IN DECEMBER REVERSED THE NOVEMBER DEFICIT. EXPORTS ROSE TO F 30.9 BILLION (FROM 27.2 BILLION) WHILE IMPORTS REMAINED AT PRACTICALLY THE SAME LEVEL AT F 29.3 BILLION (AS COMPARED WITH 29.2 BILLION IN NOVEMBER).

AS A CONSEQUENCE OF THIS DEVELOPMENT, THE ANNUAL DEFICIT FOR 1977 (ON AN FOB/FOB BASIS) WAS REDUCED TO F 11.3 BILLION, AS COMPARED WITH A DEFICIT OF F 20.4 BILLION IN 1976.

FOREIGN TRADE (BILLIONS OF FRANCS)

	DEC.76	NOV.77	DEC.77
IMPORTS FOB			
EXPORTS FOB	27.1	27.2	30.9
BALANCE	- 2.2	- 2.0	# 1.6

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PERCENT OF IMP. COV. BY EXP. 92.6 93.1 105.4

CORRECTED FOR SEASONAL VARIATIONS			
IMPORTS FOB	26.3	30.4	26.7
EXPORTS FOB	25.0	27.7	28.3
BALANCE	- 1.3	- 2.7	1.7
PERCENT OF IMP COV. BY EXP.	94.8	91.2	L06.2

	FULL YEAR 76	FULL YEAR 77	PERCENT CHANGE FROM 76
IMPORTS FOB	393.7	331.3	12.8
EXPORTS FOB	273.3	320.0	17.1

BALANCE - 20.4 - 11.3
PERCENT OF IMP. COV.
BY EXP. 93.1 96.6

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FOREIGN TRADE MINISTER ROSSI COMMENTED THAT THE
DECEMBER BALANCE WAS THE BEST FOR ANY SINGLE MONTH
OVER THE PAST SEVERAL YEARS.

ADMITTEDLY, THE LARGE SWING FROM NOVEMBER TO DECEMBER
WAS INFLUENCED BY THE LEVEL OF PETROLEUM IMPORTS IN
NOVEMBER (SEE PARIS 37208 OF 12/20/77), WHICH RETURNED
TO "NORMAL" IN DECEMBER. ALSO THE DECEMBER DEFICIT IN
TRADE OF FOOD AND AGRICULTURAL PRODUCTS DROPPED TO 188

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MILLION FRANCS (COMPARED TO A MONTHLY AVERAGE OF 730 MILLION EARLIER IN THE YEAR). HOWEVER, IN THE LONGER TERM THERE IS A CLEAR IMPROVEMENT IN THE TREND SINCE THE END OF 1976. THE MONTHLY DEFICIT AVERAGED F 2.8 BILLION IN THE FOURTH QUARTER OF 1976; IT SUCCESSIVELY DROPPED TO 1.7 BILLION, 1.0 BILLION, 0.75 BILLION, AND 0.3 BILLION IN THE FOLLOWING FOUR QUARTERS OF 1977.

IN COMMENTING ON THE 1977 ANNUAL RESULTS, THE MINISTER REFERRED TO THE TRADE SURPLUS IN CAPITAL GOODS RISING TO F 17.8 BILLION FROM 12.9 BILLION IN 1976. THE DEFICIT IN TRADE WITH INDUSTRIAL NATIONS (F -28 BILLION IN 1976) WAS REDUCED TO F -19 BILLION IN 1977, A RESULT PRINCIPALLY REFLECTING AN IMPROVEMENT IN THE FRENCH TRADE BALANCE WITH GERMANY AND THE U.S.

ANNUAL PETROLEUM IMPORTS WERE HELD AT F 54 BILLION, JUST BELOW THE CEILING OF 55 FIXED AT THE BEGINNING OF THE YEAR BY THE FRENCH GOVERNMENT. CLEARLY, THE DECLINE IN THE VALUE OF THE U.S. DOLLAR WAS AN IMPORTANT FACTOR IN KEEPING THE COST OF IMPORTS LOW.

5. MONEY SUPPLY INCREASED BY 12.3 PERCENT IN OCTOBER YEAR OVER YEAR

PRELIMINARY PRESS REPORTS INDICATE THAT THE UNADJUSTED MONEY SUPPLY (M2) WAS FF 948.3 BILLION IN OCTOBER, AN INCREASE OF 1.4 PERCENT FOR THE MONTH AND 12.3 PERCENT FOR THE 12 MONTH PERIOD ENDING IN OCTOBER. THE SEASONALLY ADJUSTED MONEY SUPPLY IS REPORTED TO HAVE INCREASED BY 0.8 PERCENT DURING THE MONTH. UNADJUSTED M1 WAS FF 481 BILLION, A 1.3 PERCENT INCREASE FOR THE MONTH, WHILE QUASI MONEY WAS FF 467.3 BILLION, UNCLASSIFIED

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A 1.4 PERCENT INCREASE. SEASONALLY ADJUSTED M1 INCREASED BY 0.7 PERCENT. NET FOREIGN EXCHANGE RESERVES WERE FF 46.4 BILLION AND CLAIMS ON THE PUBLIC SECTOR, FF 125.2 BILLION. MORE DETAILED STATISTICS WILL BE REPORTED WHEN AVAILABLE.

6. COMPANY FINANCIAL SITUATION WEAKENED IN SECOND HALF OF 1977

AN INSEE SURVEY ON THE FINANCIAL SITUATION OF INDUSTRIAL FIRMS, CONDUCTED BETWEEN DECEMBER 9 AND JANUARY 2, INDICATES THAT THERE WAS A SLIGHT DETERIORATION IN FIRMS' FINANCES DURING THE SECOND HALF OF 1977. THE PRINCIPAL FINDINGS OF THIS SURVEY ARE: 1) COMPANIES' TREASURIES APPEAR NOW TO BE A LITTLE MORE STRAINED THAN ON AVERAGE; 2) OPERATING RETURNS WEAKENED, THE SLOWER INCREASE IN COSTS NOT HAVING FULLY COMPENSATED THE WEAKENESS IN DEMAND; 3) INDUSTRIALISTS CONTINUE TO THINK THAT THE DISTRIBUTION OF CREDIT IS QUITE RESTRICTIVE. DESPITE THESE RESULTS, THE NUMBER OF COMPANY HEADS EXPECTING TO REDUCE THEIR EMPLOYMENT OR THEIR INVESTMENT EXPENDITURE IS NOT AS HIGH AS MIGHT BE EXPECTED. HOWEVER, IT MUST BE REMEMBERED THAT SOME INVESTMENT WHICH WAS ORIGINALLY PLANNED FOR 1977 HAS BEEN DEFERRED TO 1978. FOR THE FIRST HALF OF 1978, INDUSTRIALISTS EXPECT A STABILITY OF RETURNS AND FINANCES.

7. NUMBER OF BUSINESS BANKRUPTCIES INCREASED BY 11.7

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PERCENT IN 1977

THE NUMBER OF BUSINESS BANKRUPTCIES IN 1977 WAS 11.7 PERCENT HIGHER THAN IN 1976. THE SECTOR SHOWING THE LARGEST INCREASE WAS HOTELS-CAFES-RESTAURANTS WITH A 15.2 PERCENT INCREASE. OTHER SECTORS ABOVE THE AVERAGE WERE OTHER SERVICES (14 PERCENT), COMMERCE (13.7 PERCENT) AND INDUSTRY (12.1 PERCENT). THE INCREASES FOR BUILDING-PUBLIC WORKS AND TRANSPORT WERE ONLY 6.9 PERCENT AND 4 PERCENT RESPECTIVELY.

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8. SHARP DECLINE IN VOLUME ON BOURSE IN 1977

THE INDEX OF THE PARIS STOCK EXCHANGE CLOSED AT THE END OF 1977 AT 59.9, DOWN FROM 64 ON DECEMBER 31, 1976. THE LOW POINT OF THE YEAR WAS 50.4 ON MAY 10. TOTAL TRANSACTIONS AMOUNTED TO FF 48.16 BILLION, A FALL OF 12.5 PERCENT FROM THE 1976 TOTAL OF FF 55.04 BILLION. TOTAL TRANSACTIONS IN STOCKS FELL FROM FF 26.78 BILLION IN 1976 TO FF 21.91 BILLION IN 1977, DOWN BY 18.2 PERCENT. TRANSACTIONS IN BONDS DECLINED BY ONLY 7.1 PERCENT FROM FF 28.26 BILLION TO FF 26.25 BILLION.

9. LONG-TERM EXTERNAL BORROWING

THE FOLLOWING LONG-TERM EXTERNAL BORROWINGS WERE NOTED IN THE PRESS DURING THE REPORTING PERIOD.

1) CAISSE NATIONALE DE CREDIT AGRICOLE, \$50 THOUSAND, 7 YEARS, FLOATING RATE.

2. BANQUE FRANCAISE DU COMMERCE EXTERIEUR, DM 150 THOUSAND, 10 YEARS, 5-3/4 PERCENT.

OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS

PARIS

210 DOLLAR DROPS FURTHER

250 PARIS FOREX MARKET

282 GOLD IN RELATION TO MONEY ABROAD

723 INSEE REQUEST

816 PARIS FOREX MARKET

835 A FRENCH SOCIALIST LEADER LOOKS AHEAD

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1154 FORECAST OF FRENCH ECONOMY FOR 1978

1342 REQUESTED MEETING

AIRGRAMS

PARIS

A-1 FRENCH FOREIGN EXCHANGE HOLDINGS

A-2 NEW SERIES OF QUARTERLY NATIONAL
ACCOUNTS

A-5 TRADE W/COMMUNIST AREAS NOV '77

A-7 FRENCH RESERVES END OF DEC '77

A-11 FRENCH FOREIGN EXCHANGE HOLDINGS HARTMAN

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